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ARABIAN AMERICAN OIL COMPANY

A CORPORATION

505 PARK AVENUE

NEW YORK 22, NEW YORK

DEPARTMENT OF STATE A/CDC/MR

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JAMES TERRY DUCE
VICE PRESIDENT

October 23, 1952

The Honorable Oscar Chapman
Secretary of the Interior
Interior Building
Washington, D.C.

My dear Mr. Secretary:

Through the courtesy of Mr. Elmer Batzell, I am sending you two papers. They are merely my personal suggestions: one - a memorandum on the reasons for setting up an Oil Policy Board, and, second, a suggested form of letter setting up such a Board.

The memorandum may contain in its initial paragraph too much material on the importance of oil for which you will please forgive me. It is in my blood. It may lack in its end paragraph comment on the political reactions at home to the releases by Senators Hennings and Long and to the general lack of public interest in the cartel proceedings. Of such matters, I would not presume to even speak in the presence of one so expert as you yourself.

In the cartel proceedings and in the staff report of the Federal Trade Commission, I feel we are walking with a flaming torch in a powder magazine. We are giving aid to the enemy. If theoil industry is acting in any sense against the public interest, it should be corrected. But, in doing so, we should not take the risk of jeopardizing the very existence of so potent a source of American power. Like it or not, the American oil industry abroad is in effect an arm of our government or, perhaps I should say, of the American body politic. It is, at the same time, the foremost example of Point IV in action. No industry has developed such advanced social and economic policies. Its very success in these things is one of the great triumphs of the American system and this makes it the great target for the Communists. My plea is to stop, look and listen. I am sure the industry will cooperate to the fullest extent with the United States Government.

Faithfully yours,

ORIGINAL SIGN
J. T. DUCE

James Terry Duce

JTD:AEL
Encl.

New York, New York
October 23, 1952

MEMORANDUM

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Kitchen
Byroade
Linder
Fisher
McWilliams
for Bruce

There is no need to argue the importance of petroleum. Proved reserves in the Middle East are variably estimated publicly at from 60 to 75 billion barrels. Discoveries this year make it certain that from the fields already known there will be produced close to 100 billion barrels of oil. This is three times the proved reserves of the United States, and the most impressive single concentration of petroleum resources in the world. These reserves lie in relatively weak countries which are just beginning to be developed, and which can easily be swayed in one direction or the other by national movements. Practically all the concessions in these areas are presently held by American or British companies. The field operations of the companies in these areas have been on the whole very good and they have much improved the political situation in the Middle East. The flow of oil out of this mass of oil reserves is essential to the prosperity of Europe, Southeast Asia, Australia and Africa. It depends the continued tempo of industrial activity and the production of munitions in Western Europe. The interruption of this flow would have immediate repercussions in the United States and might even result in rationing in peace-time. The military value of the reserves is immense - first, because they are the source of a most essential supply for our own Armed Forces and of friendly foreign nations and, second, because if this source of supply should fall into the hands of the Russians, as they are known to be short of petroleum products, it might remove what is now the limiting factor in their military operations. With the Middle Eastern fields under Russian control, they would be in a position also to use oil supply as a most important bargaining element in dealing with other countries.

Outside of the immense mass of reserves in the Middle East, the most important other reserves are in Venezuela. There again, xenophobic elements are now doing all they can to undermine the concessions operated by American and British companies in that area. The most crushing blow that the Communists can aim at the United States and its Allies is the sabotage of the oil producing properties in these two areas. The oil of the Dutch East Indies is a minor affair in comparison with the other two. It is only of importance to Southeast Asia. The Report issued by the Federal Trade Commission staff on the so-called oil cartel and the Grand Jury investigation have been concentrated on one phase of the petroleum problem; that is the possible existence of a cartel in the industry. The other questions of policy such as these mentioned above are not touched upon. These legal proceedings and the Report are having numerous adverse effects on the interest of the United States.

The Report originating with the Federal Trade Commission staff is being treated by the Russians as if it were the gospel and is already being

MEMORANDUM FROM J. T. DUCE

WASHINGTON, D. C. October 24, 1952

TO MR. GEORGE WADSWORTH

As per your request.

F. Crawford

PN
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If we grant that the present Grand Jury investigation is going to have serious repercussions abroad and that it will weaken the position of the oil companies throughout the world, it follows that it will interfere with the free flow of oil in world trade. Such repercussions necessarily raise questions of major national policy above and beyond the narrow aims of the Department of Justice suit and fraught with immense strategic consequences to the United States - consequences that render it imperative that these matters be handled only on the highest level. One cannot walk safely in a powder magazine with a flaming torch.

The question then arises - what should be done about it? Now it is to be noted that there is an area for the exercise of executive discretion when in the public interest proceedings are to be instituted under a statute - that is as to the form the proceedings will take, and the time at which they should be instituted. Ordinarily the public interest is appraised by the Attorney General, but there are circumstances which arise, as in the present case, where aspects of the public interest deeply concern other departments which have special competence in the evaluation of these interests. During the Second World War this evaluation was done informally by each Department affected and final decisions were made by the President. An example is the question of certain anti-trust suits upon which the President of the United States passed, and which were deferred or in some cases withdrawn after commencement because they were believed to conflict with the then public interest. Since that time there has been devised within the government a council which might well make evaluations such as those believed to be called for in the case of the oil industry. This is the National Security Council.

As a procedure it is suggested that:

(1) The National Security Council take cognizance of the many strategic and political problems raised as a result of these cartel proceedings and recommend to the President that he constitute a special committee or Board to investigate the conduct of the oil industry abroad and until this Board reports, the problem could be withdrawn from study by the Grand Jury.

(2) The Board could then draw upon these experts in government service connected with petroleum matters and also upon any specially qualified technician for advice. The oil industry on its side could present to this Board a complete picture of the problems as industry sees them. The Defense authority would present to the Board the objectives that they think should be paramount in the development of oil resources abroad. The Department of State would submit its advice on political problems. The Department of the Interior could place before the Board its observations on the technical developments in foreign countries and their relationship to the domestic industry. The Attorney General could present those legal

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SUGGESTED LETTER

TO THE: SECRETARY OF STATE
SECRETARY OF DEFENSE
SECRETARY OF THE INTERIOR
SECRETARY OF COMMERCE

Dear Sirs:

Within the last year a number of grave problems have arisen in respect to oil -- many of them in connection with the operation of foreign concessions and the distribution of oil to our friends and allies. It would appear desirable, therefore, to review with the industry the problems now arising abroad with reference to this very essential resource.

Under similar circumstances affecting in the main the domestic industry some twenty-eight years ago, the President established the Federal Oil Conservation Board. At that time, there was grave national concern over the wasteful production practices of the oil industry and fear that essential oil supplies might be exhausted. As a result of the activities of that Board, the actions of Congress, together with the work of the State authorities and the whole-hearted cooperation of the industry, improved practices of production were adopted, discoveries stimulated until at present we produce in the United States three times as much oil as in 1924 and proved reserves have increased correspondingly. In the meantime, world demand, excluding Russia and its satellites, has increased to 11,000,000 barrels per day and demand abroad to 5,000,000 barrels per day. Production has kept pace with this demand.

There has been at the same time a tremendous increase in the use of aircraft, a growing dependence of the world on intricate manufacturing processes whose base is oil and a vast growth in strategic

importance of oil-driven land and sea transport. All this emphasizes the great role the petroleum industry plays in the arts of peace and war. Oil is essential to the peace-time economy of all nations and to the national defense. The abundant post-war supplies of petroleum products have been a major factor in the rehabilitation of war ravaged Europe. Provision for a reasonably priced and abundant supply to the United States and the friendly nations associated with it must be considered in the light of national policy and this policy in turn must be an integral part of our defense strategy.

I have, therefore, constituted the National Oil Policy Board, consisting of the Secretaries of State, Defense, Interior, and Commerce, with the ~~council~~ counsel of the Attorney General to study the questions that have arisen and to enlist the cooperation of the industry in the exhaustive examination of the problems connected with oil production, processing and distribution. From this study by the Board and its recommendations to the President, it would be hoped there would develop a better understanding by industry and by Government of their mutual problems. This might in turn be reflected by the establishment of policies and rules of conduct set forward by the Board after consultation with the industry, consideration by the Congress or the several States, and recommendations for the negotiation of treaties or agreements with friendly foreign powers, all dealing with the national policy in petroleum matters.

I would desire that the conferences with industry, wherever possible, should be open and complete and that all phases of the industry, as well as the principal consumers should be heard. Only by such a careful

and well considered weighing of all the facts can the problems of this great industry be clearly presented to the people of the United States. I would expect the Board to make full use of all the established agencies of Government which now deal with petroleum matters and to draw on them for the services of such technical experts as may be needed and particularly with relation to importance of oil in National Defense. I would also expect the industry to make available to the Board all information and to detail to it such technical experts as the Board may require. During the course of the inquiry, I would expect the Board to report to the President from time to time on important problems and to conclude its work with a report embodying its recommendations as to the Government's policy with reference to petroleum matters.